



County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE

713 KENNETH HAHN HALL OF ADMINISTRATION • LOS ANGELES, CALIFORNIA 90012
(213) 974-1101
<http://cao.co.la.ca.us>

DAVID E. JANSSEN
Chief Administrative Officer

February 3, 2004

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

Board of Supervisors
GLORIA MOLINA
First District

YVONNE BRATHWAITE BURKE
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

WASHINGTON, D.C. UPDATE

PRESIDENT'S PROPOSED FEDERAL FISCAL YEAR 2005 BUDGET

On February 2, 2004, President Bush released his proposed \$2.4 trillion budget for Federal Fiscal Year (FFY) 2005, which begins on October 1, 2004. The Administration projects a FFY 2005 budget deficit of \$364 billion, down from a projected FFY 2004 deficit of \$521 billion in the current year. In a statement, the President said that his proposal reflects his three highest priorities - winning the war on terror, strengthening homeland security, and spurring the economy.

The Administration's proposed FFY 2005 budget would limit the overall increase in discretionary spending to 3.9 percent. Defense spending would increase by seven percent even though the Administration does not include any funding for military operations in Iraq or Afghanistan after the end of FFY 2004. Homeland security activities would receive a 10 percent increase, leaving nearly all other domestic discretionary programs with a net 0.5 percent increase.

Given the extremely tight discretionary limits proposed by the Administration, the increases in the projected deficit, and a Congressional schedule truncated by the November elections, Republican leaders on the appropriations committees are predicting a strong likelihood for budgetary gridlock this year. Senate Appropriations Chair Stevens (R-AK) anticipates that only the FFY 2005 Defense, Military Construction, and Homeland Security appropriations bills will have enough support to pass the Senate. While it is very early in the FFY 2005 budget process, such statements portend a fiscal year in which a single omnibus appropriations bill is enacted in lieu of the regular 13 individual appropriations bills.

Many of the President's FFY 2005 budget proposals are resubmissions of FFY 2004 budget proposals, such as the proposed elimination of the State Criminal Alien Assistance Program, which Congress rejected or otherwise did not enact last year. Attached is a chart with the President's proposed FFY 2005 funding levels for programs which are funded through annual appropriations bills.

Major budget proposals of County interest are summarized below:

Health

Medicaid/SCHIP Program Integrity: The Administration indicates that one of its Medicaid and SCHIP priorities is to ensure their fiscal integrity, including by curbing the use of intergovernmental transfers (IGTs) as non-Federal matching funds and by capping Medicaid payments to individual state and local government providers "to no more than the cost of providing services to Medicaid beneficiaries." These proposals would reduce Federal Medicaid spending by an estimated \$1.5 billion in FFY 2005 and \$9.6 billion over five years.

The fiscal impact on the County cannot be estimated at this time because the Administration has not yet released any details on exactly how IGTs would be curbed and Medicaid payments would be capped. However, this proposal potentially could affect the County more than any other Administration proposal. This is because, in California, IGTs finance supplemental payments under the Selective Provider Contracting Program (SPCP) and Medicaid disproportionate share hospital payments, which provide the County's hospitals with Federal Medicaid payments that exceed the cost of providing services to Medicaid patients. The Administration also proposes to allocate \$20 million to increase audits and evaluations of state Medicaid and SCHIP programs to ensure their fiscal integrity.

Medicaid/SCHIP Financing Option: The Administration indicates that it remains committed to last year's budget proposal to enact legislation which would provide states with the option of receiving greater flexibility over the use of Medicaid and the State Children's Health Insurance Program (SCHIP) funding in exchange for having their Federal funding capped. While Congress held hearings on this proposal in 2003, legislation has not yet been introduced to implement it.

Medicaid Matching Rate for Management Information Systems: The President proposes to reduce the current 90% Federal matching rate for the development and implementation of Medicaid claims processing and information retrieval systems to 75% for FFY 2005, which would save the Federal government an estimated \$80 million.

Medicaid Administrative Costs: The President proposes to reduce Federal reimbursement for Medicaid administrative costs by \$300 million in FFY 2005 only to reflect the share of costs assumed in the Temporary Assistance for Needy Families (TANF) block grant, and to prohibit states from using TANF funds to pay these costs in FFY 2005. In the past, administrative costs common to Medicaid, Food Stamps, and the old Aid to Families with Dependent Children (AFDC) programs were charged to AFDC and counted in setting each state's annual TANF block grant allotment. This one-time reduction is intended to recover the amount of funds in the TANF block grant that states now charge to Medicaid.

Medicaid Home Care Demonstration: The President has resubmitted his FFY 2004 proposal to give states incentives to use home care instead of nursing homes for Medicaid recipients requiring long term care. Under the five-year "Money Follows the Individual" demonstration, the Federal government would fully reimburse states for one year of Medicaid services for individuals who are moved from nursing homes to at-home care. After the initial year, states would resume receiving Medicaid funds at the normal matching rate. The estimated cost of the initiative would be \$500 million over five years.

Transitional Medicaid Assistance (TMA): The President's proposed budget includes \$3.24 billion over five years to extend TMA, which provides up to 12 months of extended Medicaid coverage for persons transitioning from welfare to work. The current authorization for TMA expires on March 31, 2004.

Community Access Program (CAP): As in past years, the President proposes to phase out CAP, which provides competitive grants to health systems to improve access for uninsured persons. The County was one of the first recipients of a CAP grant. Funding for FFY 2005 would total \$10 million, down from \$104 million in FFY 2004.

Substance Abuse Treatment Vouchers: First funded in FFY 2004 at \$100 million, the Administration proposes an increase to \$200 million in FFY 2005 for its new initiative to provide vouchers to persons needing substance abuse treatment.

Bioterrorism Grants: The President proposes to reduce funding for bioterrorism public health grants from \$934 million in FFY 2004 to \$829 million in FFY 2005 and to reduce funding for hospital preparedness grants from \$515 million to \$476 million in FFY 2005. The County is one of only three local jurisdictions nationally that receives direct allotments under these programs.

Ryan White AIDS: The President requests about \$2.08 billion for Ryan White AIDS programs in FFY 2005, which is a \$35 million increase from FFY 2004.

Community Health Centers: The President requests about \$1.836 billion for this program in FFY 2005, which is an increase of \$219 million above the FFY 2004 level.

Human Services

Temporary Assistance for Needy Families (TANF): The Administration is resubmitting the same TANF reauthorization proposal that it made last year. TANF block grant funding to states would continue to be frozen at current levels. The current authorization for TANF expires on March 31, 2004. While the House passed its TANF reauthorization bill (H.R. 4) early last year, the Senate version is pending Senate floor action.

Foster Care Flexible Funding Option: Similar to last year, the Administration is proposing to provide states with the option of receiving greater flexibility over the use of Title IV-E foster care funds in exchange for having their Federal funding capped over a five-year period. As with the Medicaid flexibility proposal, the Administration has not yet introduced legislation to authorize this option, and Congress did not take any legislative action on this proposal last year.

Refugee Eligibility for Supplemental Security Income (SSI): The President is proposing to allow refugees to receive SSI benefits during their first eight years in the country, which is one year longer than under current law.

Social Services Block Grant (SSBG): The President proposes \$1.7 billion for SSBG in FFY 2005, the same level as in FFY 2004.

Community Services Block Grant (CSBG): The President proposes to cut CSBG funding from the FFY 2004 level of \$642 million to \$495 million in FFY 2004. Such cuts have been rejected by Congress in past years.

Older Americans Act (OAA): The President requests about \$1.38 billion in overall OAA funding in FFY 2005, which is approximately the same level as in FFY 2004.

Justice

The President is proposing major cuts in law enforcement grants to state and local governments as seen in the attached chart and described below.

State Criminal Alien Assistance Program (SCAAP): Similar to last year, the President proposes to eliminate SCAAP in FFY 2005. In FFY 2004, SCAAP was funded at \$297 million. At a budget briefing for state and local government representatives, Department of Justice officials indicated that the Administration believes that SCAAP money is better spent on other programs, such as the Southwest Border Drug Prosecution Initiative, which provides \$48 million to help states and localities pay for the processing, detaining, and prosecuting of criminal aliens cases referred to them by Federal agencies.

COPS: The President proposes to reduce overall COPS funding from \$748 million in FFY 2004 to \$97 million in FFY 2005. This reduction includes cutting COPS Public Safety and Community Policing Grants from \$164 million in FFY 2004 to \$57 million in FFY 2005 and COPS Technology funding from \$403 million to \$2 million in FFY 2005.

Justice Assistance Grant: Once again, the Administration is proposing to consolidate the Local Law Enforcement Block Grant and Byrne formula grants into a Justice Assistance Grant (JAG), which would be funded at a significantly lower level. Congress rejected this proposal in past years.

Crime Identification Technology Act Grants: As in the Administration's FFY 2004 Budget Proposal, the President proposes to eliminate grants provided under the Crime Identification Technology Act (CITA), which was funded at \$30 million in FFY 2004.

DNA Initiative Grants: The President proposes to increase funding to reduce DNA testing backlogs from \$100 million in FFY 2004 to \$177 million in FFY 2005. Under the proposal, funds could be used by states and local crime laboratories to strengthen their capabilities in areas such as reducing backlogs of DNA casework samples and providing specialized training.

Election Reform

The President is requesting \$40 million for FFY 2005 to help state and local governments update their voting equipment and to implement other election reforms authorized under the Help America Vote Act (HAVA) of 2002. That amount is far lower than the nearly \$1.5 billion appropriated in FFY 2004 and the \$600 million authorized for election reform grants in FFY 2005 under HAVA. Due to the slow start up of the Election Assistance Commission, which is to administer HAVA election reform grants, state and local governments have not yet received any FFY 2004 election reform grant funds and \$830 million in FFY 2003 funds.

Department Of Homeland Security

The President proposes to reduce overall state and local homeland security grant funding from \$2.9 billion to \$2.6 billion. California's percentage share of overall homeland security grant funding, however, should increase under the President's proposed budget. This is because the President proposes to increase homeland security grant funding targeted to high-threat urban areas under the Urban Area Security Initiative (UASI) while reducing funding allocated through states using a formula that provides the least amount of funding per capita to the most populous states. In FFY 2004, California received about 20% of total UASI high-threat urban area grant funding, but only 8% of total State Homeland Security Grant (SHSG) funding. The President's proposed budget would increase high-threat urban area grant funding from

\$721 million in FFY 2004 to \$1.2 billion and would cut SHSG funding from \$1.69 billion to \$700 million in FFY 2005. The State also should benefit from the proposed \$200 million in new funding for UASI targeted infrastructure grants for the protection of critical facilities and transportation infrastructure.

Employment And Training

Similar to last year, the President is proposing to consolidate the Workforce Investment Act (WIA) Adult, Dislocated Worker, and State Employment Service programs into a single consolidated WIA block grant, which would be funded at \$3.3 billion in FFY 2005. WIA Youth Grant funding would be funded at \$1 billion in FFY 2005, roughly the same as in FFY 2004.

Housing And Urban Development (HUD)

Section 8 Voucher Assistance: The Administration proposes to reduce funding for Section 8 vouchers from \$17.53 billion in FFY 2004 to \$16.92 billion in FFY 2005, and to reduce funding for administrative costs from \$1.235 billion to \$1.176 billion. The President also proposes to convert the Section 8 program to a new "Flexible Voucher Fund" block grant to Public Housing Authorities (PHAs), which is intended to control rising program costs and to provide PHAs with greater flexibility, such as the discretion to set housing subsidy levels based on local market conditions.

Community Development Block Grant (CDBG): The President proposes to fund CDBG formula grants at \$4.331 billion in FFY 2005, the same level as FFY 2004.

American Dream Downpayment Initiative (ADDI): Just as in FFY 2004, the President is requesting \$200 million for ADDI, which helps low- and moderate-income families with housing downpayment costs. In FFY 2004, \$87 million was appropriated for ADDI.

Homeless Assistance Grants: The President proposes to consolidate three existing homeless assistance programs into a single program, which would be funded at roughly the same level as in FFY 2004. The Administration also proposes to transfer the Emergency Food and Shelter Program from the Federal Emergency Management Agency to HUD.

Transportation

The President proposes to maintain overall Federal highway funding at \$33.6 billion in FFY 2005, the same level as in FFY 2004. Funding for the Congestion Mitigation and Air Quality Program, which funds projects to reduce congestion and air pollution, would be increased by \$100 million to \$2.1 billion.

The Administration requests a total of \$256 billion over the six years for Transportation Equity Act for the 21st Century Act (TEA-21) surface transportation programs, which must be reauthorized. That funding request is far lower than the funding levels in the House TEA-21 reauthorization bill (H.R. 3550), which would provide \$375 billion for TEA-21 programs over six years, and the Senate version (S. 1072), which would provide \$318 billion over six years. The main difference is that the Administration neither supports an increase in the gasoline tax nor a major increase in General Fund support for transportation spending. The Administration, however, does support redirecting the 2.5 cent per gallon excise tax on gasohol (ethanol), which is currently deposited in the General Fund, to the Highway Trust Fund.

Army Corps of Engineers - Civil Works

The President proposes to reduce Army Corps' Civil Works funding to \$4.2 billion in FFY 2005, a reduction of \$356 million. Funding for Army Corps operations and maintenance activities would be reduced from \$1.97 billion in FFY 2004 to \$1.92 billion in FFY 2005 while funding for general investigations would be cut to \$90.5 million in FFY 2005, a reduction of \$26 million. The President's proposed budget also would create a \$35 million emergency maintenance reserve fund for use by the Secretary of the Army to address unexpected high-priority emergency maintenance needs.

Pursuit of County Position

As noted earlier, reauthorization of the Transportation Equity Act for the 21st Century Act (TEA-21) is pending in both houses of Congress. We have been informed that amendments are likely to be offered to pending House and Senate TEA-21 reauthorization bills (H.R. 3550/S. 1072), which would allow the size and weight of trucks to increase from 80,000 pounds to 97,000 pounds, with the possibility of triple-trailer trucks allowed on the highways. On August 19, 1997, the Board adopted a policy opposing a proposal to allow triple-trailer trucks on California's Interstate highways. On May 7, 2003, the County supported SJR 7 (Karnette), which asked the President and Congress to maintain the present Federal restrictions on truck length and weight. **Consistent with these Board policies, our Washington, D.C. advocates will oppose amendments to the TEA-21 reauthorization bill that would increase the allowable size or weight of trucks.**

Each Supervisor
February 3, 2004
Page 8

We will continue to keep you advised of any new developments.

DEJ:GK
MAL:MT:hg/n

Attachments

c: Executive Officer, Board of Supervisors
 County Counsel
 All Department Heads
 Legislative Strategist

PRESIDENT'S PROPOSED FEDERAL FISCAL YEAR 2005 BUDGET
(in millions)

PROGRAMS	Enacted 2004	President's 2005
Homeland Security		
State Homeland Security Grant	\$ 1,689	\$ 700
State and Local Law Enforcement Terrorism Prevention	497	500
High-Threat Urban Area Grants	721	1,200
Targeted Infrastructure Protection Grants	0	200
Firefighting Grants	746	500
Emergency Management Performance Grants	179	170
Justice		
State Criminal Alien Assistance Program	297	0
COPS	748	97
Local Law Enforcement Block Grant	223	0
Byrne Formula Grant	495	0
Justice Assistance Grant ¹	0	529
Juvenile Justice Formula Grant	83	0
Juvenile Accountability Block Grant ²	59	0
Juvenile Delinquency Block Grant	0	43
Health and Human Services		
Bioterrorism Public Health Grants	934	829
HRSA Hospital Preparedness Grants	515	476
Ryan White AIDS Total	2,045	2,080
Community Health Centers	1,617	1,836
Substance Abuse Block Grant	1,779	1,832
Mental Health Block Grant	434	436
Maternal and Child Health Grant	730	730
Family Planning	278	278
Community Access Program	104	104
Preventive Health Block Grant	133	135
Social Services Block Grant	1,700	1,700
Community Services Block Grant	642	495
Child Welfare Services	289	292
Independent Living ³	185	200
Promoting Safe and Stable Families	404	505
Child Care Development Block Grant	4,795	4,807
Refugee Assistance	447	473
Administration on Aging (AoA) Total	1,374	1,380
AoA Family Caregivers	159	162
AoA Nutrition	714	719
AoA Supportive Services	354	357

PROGRAMS	Enacted 2004	President's 2005
Child Support Enforcement	3,898	3,941
Labor		
Dislocated Workers	1,454	0
Adult Training	899	0
Youth Training	995	1,001
State Employment Service	752	0
Consolidated WIA Grant ⁴	0	3,279
Title-V Older Americans Employment	439	440
Housing and Urban Development		
Community Development Block Grant (Formula Grant)	4,340	4,331
Homeless Assistance Grants	1,260	1,257
HOME	1,919	1,884
Section 8 Vouchers	17,531	16,920
Public Housing Operating Fund	3,579	3,573
Public Housing Capital Fund	2,696	2,674
Housing Opportunities for Persons with AIDS	295	295
American Dream Downpayment Initiative	87	200
Other		
Federal Aid to Highways Obligation Ceiling	33,643	33,643
Election Reform Grants	1,491	40

Footnotes

- ¹ President proposes to consolidate the Local Law Enforcement Block Grant and Byrne Formula Grant into a new Justice Assistance Grant .
- ² President proposes to replace the Juvenile Accountability Block Grant with a Juvenile Delinquency Block Grant, which provides for greater flexibility over the use of funds.
- ³ Includes \$60 million for Independent Living Training Voucher Grants.
- ⁴ President proposes to consolidate the State Employment Service, Dislocated Worker, and Adult Training Grants into a single Workforce Investment Act (WIA) Block Grant.